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Transcript Exhibit(s)

Docket #(s): RE-00000C-94-01605

E-01345A-97-0773

E-01345A-98-0473

Exhibit #: APSI

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5 **BEFORE THE**
6 **ARIZONA CORPORATION COMMISSION**
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9 **TESTIMONY OF JACK E. DAVIS**
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15 **On Behalf of**
16 **Arizona Public Service Company**

17 **Docket No. E-01345A-98-0473**
18 **Docket No. E-01345A-97-0773**
19 **Docket No. RE-00000C-94-0165**
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25 **June 4, 1999**
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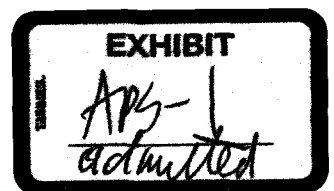


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	FILED 12/21/98

1 **DIRECT TESTIMONY**
2 **OF**
3 **JACK E. DAVIS**

4
5 **(Docket Nos. E-01345A-98-0473, et al.)**
6

7
8 **I. INTRODUCTION**
9

10 **1.Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
11 **ADDRESS?**

12 1.A. My name is Jack E. Davis, and my business address is 400 North Fifth
13 Street, Phoenix, Arizona 85004
14

15 **2.Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT**
16 **CAPACITY?**

17 2.A. I am President of Energy Delivery and Sales for Arizona Public
18 Service Company ("APS" or "Company"). My educational and
19 professional qualifications and experience are set forth in Schedule
20 JED-1, which is attached to my testimony.
21

22 **3.Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
23 **PROCEEDING?**

24 3.A. In response to the Arizona Corporation Commission's
25 ("Commission") Procedural Order of May 25, 1999, I will provide
26 some background to the Settlement Agreement dated May 17, 1999
 between APS and a broad group of consumer interests ("APS

1 Settlement Agreement” or “Agreement”). This Agreement, along
2 with its attachments, can be found as Attachment JED –2 to my
3 testimony. It is important for the Commission and other interested
4 parties to understand and appreciate the difficulty involved in reaching
5 agreement with these diverse groups on so many complicated and
6 important issues. I then discuss and explain each of the various
7 individual sections and provisions of the APS Settlement Agreement
8 and outline why the Commission’s timely approval of this Agreement
9 is in the public interest.

10
11 **II. BACKGROUND TO THE APS SETTLEMENT AGREEMENT**

12
13 **4.Q. COULD YOU DESCRIBE THE GENERAL SCOPE OF THE**
14 **APS SETTLEMENT AGREEMENT?**

15 4.A. Yes. The APS Settlement Agreement addresses a multitude of
16 competition-related issues, including the phase-in of retail electric
17 competition, Standard Offer rates, recovery and mitigation of stranded
18 costs, regulatory asset recovery, unbundled rates for customers
19 choosing competitive electric service providers, divestiture, dismissal
20 of pending litigation between APS and the Commission, market
21 structure, transmission access and pricing, etc. It is a global settlement
22 of numerous critical issues that would have greatly complicated and
23 likely prevented the implementation of retail electric competition in
24 the Company’s service area anytime this year.

1 **5.Q. WOULD YOU SUMMARIZE THE AGREEMENT'S PRIMARY**
2 **BENEFITS?**

3 5.A. The most obvious benefits are the five rate reductions for most
4 Standard Offer customers and the accelerated introduction of
5 competition in the APS service area. The five rate reductions
6 provided for in the Agreement represent a cumulative reduction in
7 rates to such customers of as much as \$ 475 million by 2004.

8
9 But this Agreement does much more than simply opening up the APS
10 service territory and reducing APS rates. It:

- 11 (1) establishes both bundled and unbundled rates;
12 (2) provides that such rates (except for the aforementioned
13 rate decreases) will remain in place through the middle of
14 2004 – providing needed price stability in the early years
15 of retail competition;
16 (3) resolves the stranded cost issue;
17 (4) ends APS' litigation with the Commission over
18 competition-related issues;
19 (5) addresses important transmission and market structure
20 issues, including divestiture of APS generation to a
21 Pinnacle West affiliate; and,
22 (6) requires implementation by APS of an interim code of
23 conduct.
24
25
26

21 In summary, the Agreement will remove concerns that have hung over
22 the Arizona market since 1996 and promote entry of new competitors
23 into the APS service area.
24
25
26

1 **6.Q. WHY DID APS AND THE OTHER PARTIES ENTER INTO**
2 **SUCH A GLOBAL SETTLEMENT AGREEMENT?**

3 6.A. The motivation on both sides for these negotiations, which were
4 widely known to be underway, was at least three fold.

5 One mutual goal was to avoid or minimize the seemingly endless
6 contested hearings that would have resulted had each of the matters
7 contained in the APS Settlement Agreement not been resolved through
8 negotiation. For example, the previous "generic" stranded cost
9 proceeding in 1998 took over six months from beginning to end, and
10 even then the final order has gone through one subsequent major
11 revision and has generated several judicial appeals. That effort would
12 have to be multiplied many fold to deal with the specifics of stranded
13 costs, unbundled rates, etc. Although the Commission has scheduled
14 hearings on some of the matters addressed by the Agreement, I feel
15 that this schedule is very ambitious, and I believe it unlikely that the
16 Commission could have completed all these hearings and issued
17 orders allowing competition to begin anytime significantly before the
18 end of this year.

19
20 Second, the parties wished to maximize the overall benefits to them of
21 any settlement. No amount of evidentiary hearings could have
22 resulted in many of the additional benefits realized by the Commission
23 and consumers under the Agreement. Most notable of these are the
24 annual rate reductions, which can only be achieved by voluntary
25 agreement of the Company, and the acceleration of competition in the
26 APS service area.

1 Third, APS hoped to eliminate some of the uncertainty currently
2 hanging over the implementation of retail electric competition. This
3 included:

- 4 (1) withdrawing the various lawsuits by APS against the
5 Commission challenging A.A.C. R14-2-1601, *et seq.*
6 ("the Electric Competition Rules") and its various
7 generic stranded cost decisions;
- 8 (2) allowing Standard Offer customers to see tangible
9 benefits from the introduction of competition in the form
10 of five annual rate decreases; and,
- 11 (3) establishing a fixed stranded cost figure, with a pre-set
12 phasing out of the transition charges as stranded costs
13 and regulatory assets are recovered per the Agreement.
14 This effectively provides a series of annual rate
15 reductions for those customers choosing competitive
16 electric service providers ("ESPs").

13 **III. PROVISIONS OF THE APS SETTLEMENT AGREEMENT**

14 **7.Q. WERE YOU PERSONALLY INVOLVED IN THE** 15 **NEGOTIATIONS THAT LED TO THE APS SETTLEMENT** 16 **AGREEMENT?**

17 7.A. Yes. I was personally involved in all of these negotiations. I have
18 also consulted extensively with the Company's attorneys and other
19 Company personnel who both took part in this process and were
20 involved in the drafting of the Agreement itself.
21

22 **8.Q. WOULD YOU PLEASE DESCRIBE THE VARIOUS** 23 **PROVISIONS OF THE APS SETTLEMENT AGREEMENT?**

24 8.A. Yes. The easiest way is to just go through the Agreement, Article by
25 Article.
26

1 **Article I:**

2 Article I addresses the actual implementation of retail access in the
3 APS service area. It calls for competition to be phased in as proposed
4 in the Electric Competition Rules pending before the Commission
5 with the exception that APS would increase the non-residential load
6 eligible for access in the first phase by some 140 MW. This additional
7 allowance restored to non-residential customers the allocated demand
8 lost by the December 11, 1998 amendments to the original 1996
9 Electric Competition Rules. Residential customers would receive
10 access in accordance with the Company's December 21, 1998, filing,
11 which also allowed for more potential residential access than would be
12 required under the Commission's proposed electric competition rules.
13 That residential phase-in plan is shown in Attachment JED-4.

14
15 The initial competitive phase described above is also contingent upon
16 the Commission's approval of the Electric Competition Rules.
17 However, APS has agreed to implement 100% retail access by January
18 1, 2001. To remove any remaining doubt as to the legality of the retail
19 electric competition contemplated under the proposed electric
20 competition rules and the Agreement, APS agrees to a modification of
21 its certificates of convenience and necessity consistent with the terms
22 of the Agreement. Finally, the parties to the Agreement urged the
23 Commission to adopt the proposed Electric Competition Rules on an
24 emergency basis by as early as July 1, 1999.

1 **Article II:**

2 Article II provides for a series of rate decreases both for Standard
3 Offer customers and customers of unbundled distribution service.
4 Standard Offer customers under 3 MW receive five 1.5% rate
5 decreases. This group includes all of our residential customers and
6 roughly 99% of the non-residential customers. Large Standard Offer
7 customers (3 MW or larger) would get four decreases totaling 5%.
8 Unbundled rates would decline from year to year in accordance with
9 Exhibit A, Schedule A to the Agreement. The large Standard Offer
10 customers received lesser rate decreases than residential and other
11 commercial customers because it was believed that such large
12 customers would have greater opportunities to benefit in the
13 competitive market.

14
15 Article II also requires that customers over 3 MW give APS one
16 year's notice before returning to Standard Offer. Under both H.B.
17 2663 and the Commission's proposed Electric Competition Rules, the
18 Company would not be required to offer these large customers
19 Standard Offer service under any conditions. The provision finally
20 agreed upon represents a compromise position. It allows large
21 customers to return to the protection of Standard Offer rates, but
22 requires one year's notice. The notice will allow APS (which by the
23 end of 2002 would have no Company-owned generation) to secure the
24 additional supplies of purchased power necessary to serve the
25 returning customer without overly burdening existing Standard Offer
26 customers.

1 Article II requires the Commission to approve an adjustment
2 mechanism by the end of 2002 (coincident with the divestiture of APS
3 generation) that would recover certain specified costs not
4 encompassed within the Standard Offer and unbundled distribution
5 rates approved by the Agreement. These costs would include the
6 prudent costs of purchasing electricity to meet the Company's
7 Standard Offer and Provider of Last Resort obligations under the
8 Electric Competition Rules, as well as future increases in Systems
9 Benefits costs authorized by the Commission. APS is obliged to make
10 a specific proposal for this mechanism no later than June 1, 2002.
11 This filing by APS would be followed by an evidentiary hearing to
12 consider the appropriate structure and implementation protocols for
13 such a rate mechanism. Moreover, before any deferred costs could
14 actually be recovered, both the signatories to the Agreement and other
15 affected parties could contest the prudence of the costs proposed by
16 APS for recovery through the mechanism as well as the eligibility of
17 such costs for recovery under the terms of Article II.

18
19 Article II directs that the Company file a general rate case no later
20 than June 30, 2003 – with new rates implemented no sooner than July
21 1, 2004. This latter date is coincident to the final amortization of
22 regulatory assets and would allow the Commission to readjust the
23 Company's rates both to reflect the end of this expense item and any
24 other changes in rate base or expense during the moratorium period. It
25 would also be at this time that the rate adjustment mechanism
26 approved by the Commission in 2002 would first begin to collect the
previously deferred costs subject to recovery by such mechanism.

1 Lastly, Article II contains provisions allowing emergency rate relief
2 under specified circumstances and also tariff filings not significantly
3 affecting Company earnings. Both of these provisions are standard
4 and have been included in every previous APS rate settlement.
5

6 **Article III:**

7 Article III begins by acknowledging that APS is presently recovering
8 regulatory assets over an eight-year period ending July 1, 2004. It
9 then goes on to state that APS has demonstrated stranded costs
10 (excluding regulatory assets) in an amount of at least \$533 million
11 (present value). The Company is required to permanently forgo
12 recovery of some \$183 million (present value - \$234 in nominal costs)
13 of these amounts. There is also a true-up mechanism that limits the
14 Company's recovery under the CTC to \$350 million. This true up is
15 handled through the previously discussed rate adjustment mechanism
16 as either a deferred debit (sums owed APS) or a deferred credit
17 (amounts owed by APS to customers). Finally, Article III contains
18 some technical provisions intended to make the approved Agreement
19 more binding in its legal effect and which are necessary to satisfy
20 certain accounting requirements.
21

22 **Article IV:**

23 The proposed Electric Competition Rules require the divestiture of the
24 Company's competitive lines of business – either to an affiliate or to
25 an unrelated third party. This Article helps to implement that
26 requirement by:

- (1) granting certain otherwise necessary Commission approvals;
- (2) providing for the deferral and later recovery of the prudent costs of the required corporate restructuring; and,
- (3) assuring that the Commission and the signatory parties support (or at least not oppose) the Company's efforts to obtain any required approvals from other government agencies and/or third parties (e.g., FERC, NRC, shareholders, etc.). These parties retain their rights under Sections 205 and 206 of the Federal Power Act to object to the rates filed with FERC by such an affiliate of the Company.

Article IV also waives compliance with certain statutory requirements not particularly relevant to competitive service providers. This waiver is specifically authorized by H.B. 2663.

The remainder of Article IV deals first with the required Commission findings under federal law that will enable the competitive APS generating affiliate to become an exempt wholesale generator ("EWG"), and then with some Commission-created regulatory burdens. Designation as a EWG would free the newly formed competitive affiliate of the Company from federal holding company regulations that unnecessarily burden what is supposed to be a competitive service provider. Similarly, certain of the Commission's general affiliate transaction rules (A.A.C. R14-2-801, *et seq.*) are waived, and all or portions of some old Commission decisions are rescinded. The former are substantially the same portions of the affiliate rules that Commission Staff agreed to waive in the previous (October 1998) APS rate settlement agreement. The Commission decisions referenced in Exhibit D to the Agreement are old orders dealing with PURPA reporting requirements for "qualified facility"

1 (“QF”) purchases, Schedule 9 (economic development), and the
2 Company’s now defunct fuel adjustment clause. The Company has no
3 QF purchases under PURPA, and Schedule 9 has long since been
4 cancelled. APS lost its fuel adjustment clause in 1989. Yet these
5 regulatory relics from the past continued to mandate that APS file
6 periodic reports with the Commission even though there is nothing of
7 relevance left to report.

8
9 **Article V:**

10 This Article addresses the voluntary withdrawal by APS of the
11 Company’s various legal suits against the Commission over the
12 Electric Competition Rules and the generic stranded cost orders. Such
13 withdrawal will be “with prejudice” – meaning the Company would
14 not be able to re-file any of these actions later, even if the Agreement
15 were subsequently challenged in court. Consequently, the lawsuits
16 will not be finally dismissed until the Commission approves the
17 Agreement and any appeals of that approval are resolved.

18
19 **Article VI:**

20 Article VI talks about Commission approval of the Agreement. It
21 allows parties to withdraw from the Agreement if it is not approved by
22 August 1, 1999, but it does not result in the automatic termination of
23 the Agreement unless APS is the party withdrawing. The balance of
24 the Article is aimed at assuring that once the Agreement is approved,
25 without modification, it will actually be binding on the various
26 signatories and that the parties, including the Commission, will

1 actively support the APS Settlement Agreement against any legal
2 challenge.

3 **Article VII:**

4 Most of this Article contains technical legal provisions. However,
5 there are also substantive provisions. These include the continuation
6 of programs benefiting low-income residential customers, an interim
7 code of conduct and APS support for AISA and Desert Star.

8 This last provision of Article VII also requires the Company to file a
9 FERC open access transmission tariff ("OATT") within 10 days of the
10 Commission's approval of the Agreement. APS must revise its
11 current OATT to reflect certain provisions needed to facilitate
12 implementation of Retail Network Integration Transmission Service.
13 This service is similar to Network Integration Transmission Service
14 contained in FERC's pro forma tariff (upon which the APS OATT is
15 modeled). However, a number of changes were necessary to
16 accommodate retail access under the Commission's Electric
17 Competition Rules, namely incorporation of certain operational and
18 pricing protocols that are being developed by the AISA Operating
19 Committee.

1 **IV. BENEFITS OF THE APS SETTLEMENT AGREEMENT**

2
3 **9.Q. WHAT ARE PRIMARY BENEFITS OF THE APS**
4 **SETTLEMENT AGREEMENT?**

5 9.A. There are at least nine that come to mind. These include:

- 6
7 (1) The accelerated introduction of retail electric competition in the
8 APS service area;
- 9 (2) annual rate reductions;
- 10 (3) rate stability and certainty for both bundled and unbundled
11 rates;
- 12 (4) resolution of the stranded cost and regulatory assets issues in a
13 fair and equitable manner;
- 14 (5) continued support for a regional ISO and the AISA;
- 15 (6) assurance of divestiture of generation and other competitive
16 services by APS in a cost-effective manner;
- 17 (7) dismissal of all APS litigation against the Commission;
- 18 (8) continued support for existing low-income programs; and,
- 19 (9) an interim code of conduct for affiliate relationships.

20
21 **10.Q. WOULD YOU ELABORATE ON EACH OF THESE**
22 **BENEFITS?**

23 10.A. Yes, although I have alluded to many of them already.

24 1. Accelerated Introduction of Competition:

25 With the approval of this Agreement and the interim implementation
26 of the Electric Competition Rules as urged by the parties, the APS
 service area will be open to certificated competitors months sooner

1 than would otherwise be the case. And a larger share of APS load will
2 be eligible for retail access in the first step of the phase-in.
3

4 2. Annual Rate Reductions:

5 Without the necessity of a full-blown rate proceeding (taking a year or
6 more for each anticipated rate reduction), APS has voluntarily agreed
7 to annual rate decreases for each of the next five years for the
8 overwhelming majority of its customers – both Standard Offer and
9 competitive access. As discussed earlier, this provides a cumulative
10 benefit of some \$ 475 million to APS customers. This follows on the
11 heels of four prior APS rate reductions. Unlike the anticipated but as
12 of yet unproven benefits of competition, these are assured benefits for
13 all customers, whether or not they participate in the competitive
14 electric market.
15

16 3. Unbundled and Bundled Rates:

17 Obviously, there could be no meaningful and informed customer
18 choice without knowing both the unbundled and bundled rates for
19 electricity. Moreover, it is also helpful to both consumers and
20 competitors if there is some assurance that these rates will not be
21 changing for some period of time, or at least that the only changes will
22 be rate reductions. The Agreement achieves this rate stability during
23 the first five years of electric competition.
24

25 4. Regulatory Assets and Stranded Cost:

26 Resolution of these issues in a manner acceptable to the Company is

1 why APS is dismissing its litigation against the Commission, why
2 APS agreed to guarantee rate reductions, and why APS made all the
3 other concessions embodied in the Agreement. As it is, APS will get
4 no stranded cost or regulatory asset recovery after 2004. Moreover,
5 APS will have to write-off \$234 million in nominal dollars (\$183
6 million present value) of the above amounts. The Agreement's
7 treatment of stranded costs, albeit less favorable to APS, is still
8 consistent with the vast majority of other jurisdictions that have
9 addressed this issue and not inconsistent with either the Electric
10 Competition Rules or the Stranded Cost Order:

11 ... we find the Affected Utilities should have a reasonable
12 opportunity to collect 100% of their stranded costs.

13 Because of the difficulty of mitigating regulatory assets,
14 as well as possible financial implications, we believe they
15 [regulatory assets] should also be given an assured recovery.

16 Stranded Cost Order at 10-11.

17 The \$533 million dollar stranded cost figure referenced in the
18 Agreement comes from the Company's August 21, 1998 filing with
19 the Commission. A copy of Schedule 2 to that filing is contained in
20 Attachment JED-3. This calculation assumes that very significant
21 stranded cost mitigation can and will take place in the next five years.
22 Finally, the \$533 million dollar stranded cost figure does not give APS
23 any credit for its prior mitigation efforts as reflected in the rate
24 reductions given in 1994, 1996, 1997 and 1998. These reductions will
25 have provided cumulative ratepayer benefits of \$460 million through
26 mid-1999.

1 5. Support for AISA and Desert Star:

2 APS continues to believe the development of these entities is essential
3 for competition by guaranteeing access to utility transmission systems
4 on a comparable and non-discriminatory basis. The AISA has
5 identified 10 operational/pricing protocols that are needed to facilitate
6 retail access within Arizona in a fair and equitable manner. The AISA
7 Operating Committee is developing these protocols, and to date, six of
8 the protocols have been completed, and the remaining four are very
9 close to completion.

10
11 6. Divestiture:

12 APS will divest its generation and competitive electric marketing
13 functions to separate affiliates subject to the provisions of A.A.C.
14 R14-2-1616. Given the realities of Palo Verde, this is as far towards
15 complete disintegration of APS as a vertical monopoly as is
16 reasonably obtainable or desirable.

17
18 7. Litigation:

19 No matter how confident the Commission may be about its legal
20 position in this litigation (despite the recent invalidation by the courts
21 of many of the Commission's telephone competition rules), its
22 removal is clearly a benefit for both it and those supporting the
23 Commission's Electric Competition Rules. Moreover, the
24 conservation of legal and managerial resources now used by both sides
25 to this litigation allows them to concentrate on the already difficult
26 task of implementing electric competition in the days ahead.

1 8. Support for Low-Income Programs:

2 APS has pledged to maintain continued funding of existing low-
3 income residential programs. If new low-income programs are
4 developed to replace existing ones, APS will support them at these
5 existing funding levels.

6
7 9. Code of Conduct:

8 In addition to the code of conduct required by the proposed electric
9 competition rules, APS will have in place an interim code of conduct
10 that should provide all parties with additional assurance that there will
11 be no improper or anti-competitive contacts between APS and its
12 competitive affiliates.

13
14 **V. CONCLUSION**

15
16 **11.Q. IN CONCLUSION, WOULD YOU SUMMARIZE YOUR**
17 **MAJOR POINTS?**

18 11.A. The APS Settlement Agreement provides benefits not achievable in
19 any other way. It is a balanced Agreement that “clears the decks” for
20 the beginning of retail electric competition in 1999. Such a global
21 settlement was the result of months of painful give-and-take
22 negotiations. I urge the Commission to evaluate the APS Settlement
23 Agreement as a holistic document rather than listen to those who
24 would “nit pick” the Agreement to pieces.

25
26 Just as important, the Commission should reject the cries of those who
 demand, after 80 years of regulated monopoly, overnight

1 implementation of a utopian model of competition, or which urge
2 endless additional analyses of these issues in search of 100% certainty.
3 This will only delay any competition.
4

5 The alternative to the Agreement is to schedule or reschedule hearings
6 on all the contested issues resolved by the Agreement. This will delay
7 for months the implementation of competition and likely could result
8 in even more litigation. Even this dreary scenario of delay, expense
9 and uncertainty would not reflect the loss of those negotiated benefits
10 from the Agreement that could not be realized regardless of how much
11 the parties litigated.
12

13 APS urges the Commission to approve this Agreement as presented.
14 It is fair, comprehensive, has broad-based support, and is most
15 certainly in the public interest.
16

17 **12.Q. DOES THIS CONCLUDE YOUR DIRECT WRITTEN**
18 **TESTIMONY?**

19 12.A. Yes.
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STATEMENT OF WITNESS QUALIFICATIONS

Jack E. Davis is President of Energy Delivery and Sales for Arizona Public Service Company and a member of its Board of Directors. As President of Energy Delivery and Sales, Mr. Davis has responsibility for Bulk Power Trading, Transmission Planning and Operations, Customer Service, Economic Development, and Pricing and Regulation.

Mr. Davis graduated from New Mexico State University in 1969 with a Bachelor of Science Degree in Medical Technology and in 1973 with a Bachelor of Science in Electrical Engineering. He joined Arizona Public Service Company that same year and has held various supervisory and managerial positions in both the System Planning and Power Contracts and Systems Operations Departments. In 1990, Mr. Davis was named Director of System Development and Power Operation and thereafter promoted to Vice-President of Generation and Transmission in 1993. In October 1996, he was named Executive Vice President of Commercial Operations and 1998 he was named to his present position.

Mr. Davis is the Past President of the Western Energy Supply and Transmission, Chairman of the Western Systems Coordinating Council (WSCC), a member of the WSCC Board of Trustees, and (past chairman of the WSCC Regional Planning Policy Committee), a member of the National Electric Reliability Council Board of Trustees, past President of the Western Systems Power Pool and a member of the Southwest Regional Transmission Association Board of Trustees. Additionally, he is a registered professional electrical engineer in the State of Arizona.

SCHEDULE JED-2

APS SETTLEMENT AGREEMENT

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN
3 Commissioner-Chairman
4 TONY WEST
5 Commissioner
6 CARL J. KUNASEK
7 Commissioner

A.C.C. - DOCKET CONTROL
RECEIVED

MAY 17 1999

DOCUMENTS ARE SUBJECT TO
REVIEW BEFORE ACCEPTANCE
AS A DOCKETED ITEM.

8 IN THE MATTER OF THE APPLICATION)
9 OF ARIZONA PUBLIC SERVICE)
10 COMPANY FOR APPROVAL OF ITS)
11 PLAN FOR STRANDED COST RECOVERY)

DOCKET NO. E-01345A-98-0473

12 IN THE MATTER OF THE FILING OF)
13 ARIZONA PUBLIC SERVICE COMPANY)
14 OF UNBUNDLED TARIFFS PURSUANT)
15 TO A.A.C. R14-2-1601 ET SEQ.)

DOCKET NO. E-01345A-97-0773

16 IN THE MATTER OF COMPETITION)
17 IN THE PROVISION OF ELECTRIC)
18 SERVICES THROUGHOUT THE STATE)
19 OF ARIZONA)

DOCKET NO. RE-00000C-94-0165

20 **NOTICE OF FILING, APPLICATION FOR APPROVAL OF**
21 **SETTLEMENT AGREEMENT, AND REQUEST FOR PROCEDURAL ORDER**

22 Arizona Public Service Company ("APS") hereby files the attached Settlement
23 Agreement ("Settlement Agreement") dated as of May 17, 1999, between APS and the other
24 signatories to this Agreement (collectively, the "Parties"). The Parties, which includes a broad
25 coalition of large and small consumer interests, entered into the Settlement Agreement for the
26 purpose of agreeing upon terms and conditions for the introduction of competition in generation
and other competitive services that they believe to be just, reasonable and in the public interest.

Pursuant to 7.10 of the Settlement Agreement, APS, on behalf of the Parties,
respectfully requests that the Commission approve the Settlement Agreement as soon as

1 practicable in accordance with a procedural schedule that establishes such formal hearings and/or
2 public meetings as are required by applicable legal requirements and that afford interested parties
3 adequate opportunity to comment and be heard on the terms of the Settlement Agreement.

4 APS also requests that the procedural schedule set forth in the April 21, 1999, Procedural Order
5 regarding consideration of APS' stranded costs and unbundled rates (issues which are resolved in
6 the Settlement Agreement) be suspended pending Commission consideration of this Settlement
7 Agreement. Because the Settlement Agreement contemplates Commission approval no later than
8 August 1, 1999, the Parties have attached hereto as Exhibit A a suggested procedural schedule for
9 Commission consideration.

10 RESPECTFULLY SUBMITTED this 17th day of May, 1999.

11
12 SNELL & WILMER L.L.P.

13 

14 Steven M. Wheeler
15 Thomas L. Mumaw
16 Jeffrey B. Guldner

17 Attorneys for Arizona Public Service Company
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EXHIBIT A

APS Settlement Procedural Schedule

Filing of Settlement Agreement *May 17*

Procedural Order Issued *May 28*

Filing Date for Testimony from Parties
to the Settlement Agreement *June 4*

Filing Date for Testimony from Staff and Intervenors *June 25*

Filing Date for Rebuttal Testimony from
Parties to the Settlement Agreement *July 9*

Hearing Begins *July 13*

SETTLEMENT AGREEMENT

May 14, 1999

This settlement agreement ("Agreement") is entered into as of May 14, 1999, by Arizona Public Service Company ("APS" or the "Company") and the various signatories to this Agreement (collectively, the "Parties") for the purpose of establishing terms and conditions for the introduction of competition in generation and other competitive services that are just, reasonable and in the public interest.

INTRODUCTION

In Decision No. 59943, dated December 26, 1996, the Arizona Corporation Commission ("ACC" or the "Commission") established a "framework" for introduction of competitive electric services throughout the territories of public service corporations in Arizona in the rules adopted in A.A.C. R14-2-1601 *et seq.* (collectively, "Electric Competition Rules" as they may be amended from time to time). The Electric Competition Rules established by that order contemplated future changes to such rules and the possibility of waivers or amendments for particular companies under appropriate circumstances. Since their initial issuance, the Electric Competition Rules have been amended several times and are currently stayed pursuant to Decision No. 61311, dated January 5, 1999. During this time, APS, Commission Staff and other interested parties have participated in a number of proceedings, workshops, public comment sessions and individual negotiations in order to further refine and develop a restructured utility industry in Arizona that will provide meaningful customer choice in a manner that is just, reasonable and in the public interest.

This Agreement establishes the agreed upon transition for APS to a restructured entity and will provide customers with competitive choices for generation and certain other retail services. The Parties believe this Agreement will produce benefits for all customers through implementing customer choice and providing rate reductions so that the APS service territory may benefit from economic growth. The Parties also believe this Agreement will fairly treat APS and its shareholders by providing a reasonable opportunity to recover prudently incurred investments and costs, including stranded costs and regulatory assets.

Specifically, the Parties believe the Agreement is in the public interest for the following reasons. First, customers will receive substantial rate reductions. Second, competition will be promoted through the introduction of retail access faster than would have been possible without this Agreement and by the functional separation of APS' power production and delivery functions. Third, economic development and the environment will

benefit through guaranteed rate reductions and the continuation of renewable and energy efficiency programs. Fourth, universal service coverage will be maintained through APS' low income assistance programs and establishment of "provider of last resort" obligations on APS for customers who do not wish to participate in retail access. Fifth, APS will be able to recover its regulatory assets and stranded costs as provided for in this Agreement without the necessity of a general rate proceeding. Sixth, substantial litigation and associated costs will be avoided by amicably resolving a number of important and contentious issues that have already been raised in the courts and before the Commission. Absent approval by the Commission of the settlement reflected by this Agreement, APS would seek full stranded cost recovery and pursue other rate and competitive restructuring provisions different than provided for herein. The other Parties would challenge at least portions of APS' requested relief, including the recovery of all stranded costs. The resulting regulatory hearings and related court appeals would delay the start of competition and drain the resources of all Parties.

NOW, THEREFORE, APS and the Parties agree to the following provisions which they believe to be just, reasonable and in the public interest:

TERMS OF AGREEMENT

ARTICLE I IMPLEMENTATION OF RETAIL ACCESS

1.1. The APS distribution system shall be open for retail access on July 1, 1999; provided, however, that such retail access to electric generation and other competitive electric services suppliers will be phased in for customers in APS' service territory in accordance with the proposed Electric Competition Rules, as and when such rules become effective, with an additional 140 MW being made available to eligible non-residential customers. The Parties shall urge the Commission to approve Electric Competition Rules, at least on an emergency basis, so that meaningful retail access can begin by July 1, 1999. Unless subject to judicial or regulatory restraint, APS shall open its distribution system to retail access for all customers on January 1, 2001.

1.2. APS will make retail access available to residential customers pursuant to its December 21, 1998, filing with the Commission.

1.3. The Parties acknowledge that APS' ability to offer retail access is contingent upon numerous conditions and circumstances, a number of which are not within the direct control of the Parties. Accordingly, the Parties agree that it may become necessary to modify the terms of retail access to account for such factors, and they further agree to address such matters in good faith and to cooperate in an effort to propose joint resolutions of any such matters.

1.4. APS agrees to the amendment and modification of its Certificate(s) of Convenience and Necessity to permit retail access consistent with the terms of this Agreement. The Commission order adopting this Agreement shall constitute the necessary Commission Order amending and modifying APS' CC&Ns to permit retail access consistent with the terms of this Agreement.

ARTICLE II

RATE MATTERS

2.1. The Company's unbundled rates and charges attached hereto as Exhibit A will be effective as of July 1, 1999. The Company's presently authorized rates and charges shall be deemed its standard offer ("Standard Offer") rates for purposes of this Agreement and the Electric Competition Rules. Bills for Standard Offer service shall indicate individual unbundled service components to the extent required by the Electric Competition Rules.

2.2. Future reductions of standard offer tariff rates of 1.5% for customers having loads of less than 3 MW shall be effective as of July 1, 1999, July 1, 2000, July 1, 2001, July 1, 2002, and July 1, 2003, upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases. For customers having loads greater than 3 MW served on Rate Schedules E-34 and E-35, Standard Offer tariff rates will be reduced: 1.5%, effective July 1, 1999; 1.5% effective July 1, 2000; 1.25% effective July 1, 2001; and .75% effective July 1, 2002. The 1.5% Standard Offer rate reduction to be effective July 1, 1999, includes the rate reduction otherwise required by Decision No. 59601. Such decreases shall become effective by the filing with and acceptance by the Commission of revised tariff sheets reflecting each decrease.

2.3. Customers greater than 3 MW who choose a direct access supplier must give APS one year's advance notice before being eligible to return to Standard Offer service.

2.4. Unbundled rates shall be reduced in the amounts and at the dates set forth in Exhibit A attached hereto upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases.

2.5. This Agreement shall not preclude APS from requesting, or the Commission from approving, changes to specific rate schedules or terms and conditions of service, or the approval of new rates or terms and conditions of service, that do not significantly affect the overall earnings of the Company or materially modify the tariffs or increase the rates approved in this Agreement. Nothing contained in this Agreement shall preclude APS from filing changes to its tariffs or terms and conditions of service which are not inconsistent with its obligations under this Agreement.

2.6. Notwithstanding the rate reduction provisions stated above, the Commission shall, prior to December 31, 2002, approve an adjustment clause or clauses which

will provide full and timely recovery beginning July 1, 2004, of the reasonable and prudent costs of the following:

- (1) APS' "provider of last resort" and Standard Offer obligations for service after July 1, 2004, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;
- (2) Standard Offer service to customers who have left Standard Offer service or a special contract rate for a competitive generation supplier but who desire to return to Standard Offer service, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;
- (3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS; and
- (4) Commission-approved system benefit programs or levels not included in Standard Offer rates as of June 30, 1999, which costs shall be recovered from all customers receiving services from APS.

By June 1, 2002, APS shall file an application for an adjustment clause or clauses, together with a proposed plan of administration, and supporting testimony. The Commission shall thereafter issue a procedural order setting such adjustment clause application for hearing and including reasonable provisions for participation by other parties. The Commission order approving the adjustment clauses shall also establish reasonable procedures pursuant to which the Commission, Commission Staff and interested parties may review the costs to be recovered. By June 30, 2003, APS will file its request for the specific adjustment clause factors which shall, after hearing and Commission approval, become effective July 1, 2004. APS shall be allowed to defer costs covered by this Section 2.6 when incurred for later full recovery pursuant to such adjustment clause or clauses, including a reasonable return.

2.7. By June 30, 2003, APS shall file a general rate case with prefiled testimony and supporting schedules and exhibits; provided, however, that any rate changes resulting therefrom shall not become effective prior to July 1, 2004.

2.8. APS shall not be prevented from seeking a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as the inability to finance on reasonable terms, or (b) material changes in APS' cost of service for Commission regulated services resulting from federal, tribal,

state or local laws, regulatory requirements, judicial decision, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

ARTICLE III

REGULATORY ASSETS AND STRANDED COSTS

3.1. APS currently recovers regulatory assets through July 1, 2004, pursuant to Commission Decision No. 59601 in accordance with the provisions of this Agreement.

3.2. APS has demonstrated that its allowable stranded costs after mitigation (which result from the impact of retail access), exclusive of regulatory assets, are at least \$533 million net present value.

3.3. The Parties agree that APS should not be allowed to recover \$183 million net present value of the amounts included above. APS shall have a reasonable opportunity to recover \$350 million net present value through a competitive transition charge ("CTC") set forth in Exhibit A attached hereto. Such CTC shall remain in effect until December 31, 2004, at which time it will terminate. If by that date APS has recovered more or less than \$350 million net present value, as calculated in accordance with Exhibit B attached hereto, then the nominal dollars associated with any excess recovery/under recovery shall be credited/debited against the costs subject to recovery under the adjustment clause set forth in Section 2.6(3).

3.4. The regulatory assets to be recovered under this Agreement, after giving effect to the adjustments set forth in Section 3.3, shall be amortized in accordance with Schedule C of Exhibit A attached hereto.

3.5. Neither the Parties nor the Commission shall take any action that would diminish the recovery of APS' stranded costs or regulatory assets provided for herein. The Company's willingness to enter into this Agreement is based upon the Commission's irrevocable promise to permit recovery of the Company's regulatory assets and stranded costs as provided herein. Such promise by the Commission shall survive the expiration of the Agreement and shall be specifically enforceable against this and any future Commission.

ARTICLE IV

CORPORATE STRUCTURE

4.1. The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until

December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

4.2. Approval of this Agreement by the Commission shall be deemed to constitute all requisite Commission approvals for (1) the creation by APS or its parent of new corporate affiliates to provide competitive services including, but not limited to, generation sales and power marketing, and the transfer thereto of APS' generation assets and competitive services, and (2) the full and timely recovery through the adjustment clause referred to in Section 2.6 above for all of the reasonable and prudent costs so incurred in separating competitive generation assets and competitive services as required by proposed A.A.C. R14-2-1615, exclusive of the costs of transferring the APS power marketing function to an affiliate. The assets and services to be transferred shall include the items set forth on Exhibit C attached hereto. Such transfers may require various regulatory and third party approvals, consents or waivers from entities not subject to APS' control, including the FERC and the NRC. No Party to this Agreement (including the Commission) will oppose, or support opposition to, APS requests to obtain such approvals, consents or waivers.

4.3. Pursuant to A.R.S. § 40-202(L), the Commission's approval of this Agreement shall exempt any competitive service provided by APS or its affiliates from the application of various provisions of A.R.S. Title 40, including A.R.S. §§ 40-203, 40-204(A), 40-204(B), 40-248, 40-250, 40-251, 40-285, 40-301, 40-302, 40-303, 40-321, 40-322, 40-331, 40-332, 40-334, 40-365, 40-366, 40-367 and 40-401.

4.4. APS' subsidiaries and affiliates (including APS' parent) may take advantage of competitive business opportunities in both energy and non-energy related businesses by establishing such unregulated affiliates as they deem appropriate, which will be free to operate in such places as they may determine. The APS affiliate or affiliates acquiring APS' generating assets may be a participant in the energy supply market within and outside of Arizona. Approval of this Agreement by the Commission shall be deemed to include the following specific determinations required under Sections 32(c) and (k)(2) of the Public Utility Holding Company Act of 1935:

APS or an affiliate is authorized to establish a subsidiary company, which will seek exempt wholesale generator ("EWG") status from the Federal Energy Regulatory Commission, for the purposes of acquiring and owning Generation Assets.

The Commission has determined that allowing the Generation Assets to become "eligible facilities," within the meaning of Section 32 of the Public Utility Holding Company Act ("PUHCA"), and owned by an APS EWG affiliate (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Arizona law.

The Commission has sufficient regulatory authority, resources and access to the books and records of APS and any relevant associate, affiliate, or subsidiary company to exercise its duties under Section 32(k) of PUHCA.

APS will purchase any electric energy from its EWG affiliate at market based rates. This Commission has determined that (1) the proposed transaction will benefit consumers and does not violate Arizona law; (2) the proposed transaction will not provide APS' EWG affiliate an unfair competitive advantage by virtue of its affiliation with APS; (3) the proposed transaction is in the public interest.

The APS affiliate or affiliates acquiring APS' generating assets will be subject to regulation by the Commission, to the extent otherwise permitted by law, to no greater manner or extent than that manner and extent of Commission regulation imposed upon other owners or operators of generating facilities.

4.5. The Commission's approval of this Agreement will constitute certain waivers to APS and its affiliates (including its parent) of the Commission's existing affiliate interest rules (A.A.C. R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions, all as set forth on Exhibit D attached hereto.

4.6. The Parties reserve their rights under Sections 205 and 206 of the Federal Power Act with respect to the rates of any APS affiliate formed under the provisions of this Article IV.

ARTICLE V

WITHDRAWAL OF LITIGATION

5.1. Upon receipt of a final order of the Commission approving this Agreement that is no longer subject to judicial review, APS and the Parties shall withdraw with prejudice all of their various court appeals of the Commission's competition orders.

ARTICLE VI

APPROVAL BY THE COMMISSION

6.1. This Agreement shall not become effective until the issuance of a final Commission order approving this Agreement without modification on or before August 1, 1999. In the event that the Commission fails to approve this Agreement without modification according to its terms on or before August 1, 1999, any Party to this Agreement may withdraw from this Agreement and shall thereafter not be bound by its provisions; provided, however, that if APS withdraws from this Agreement, the Agreement shall be null and void and of no further force and effect. In any event, the rate reduction provisions of this Agreement shall not take effect until this Agreement is approved. Parties so withdrawing shall be free to pursue

their respective positions without prejudice. Approval of this Agreement by the Commission shall make the Commission a Party to this Agreement and fully bound by its provisions.

6.2. The Parties agree that they shall make all reasonable and good faith efforts necessary to (1) obtain final approval of this Agreement by the Commission, and (2) ensure full implementation and enforcement of all the terms and conditions set forth in this Agreement. Neither the Parties nor the Commission shall take or propose any action which would be inconsistent with the provisions of this Agreement. All Parties shall actively defend this Agreement in the event of any challenge to its validity or implementation.

ARTICLE VII MISCELLANEOUS MATTERS

7.1. To the extent any provision of this Agreement is inconsistent with any existing or future Commission order, rule or regulation or is inconsistent with the Electric Competition Rules as now existing or as may be amended in the future, the provisions of this Agreement shall control and the approval of this Agreement by the Commission shall be deemed to constitute a Commission-approved variation or exemption to any conflicting provision of the Electric Competition Rules.

7.2. The provisions of this Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Agreement, unless such implementation and enforcement is stayed or enjoined by a court having jurisdiction over the matter. If any portion of the Commission order approving this Agreement or any provision of this Agreement is declared by a court to be invalid or unlawful in any respect, then (1) APS shall have no further obligations or liability under this Agreement, including, but not limited to, any obligation to implement any future rate reductions under Article II not then in effect, and (2) the modifications to APS' certificates of convenience and necessity referred to in Section 1.4 shall be automatically revoked, in which event APS shall use its best efforts to continue to provide noncompetitive services (as defined in the proposed Electric Competition Rules) at then current rates with respect to customer contracts then in effect for competitive generation (for the remainder of their term) to the extent not prohibited by law and subject to applicable regulatory requirements.

7.3. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement and none of the positions taken herein by any Party may be referred to, cited or relied upon by any other Party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

7.4. This Agreement represents an attempt to compromise and settle disputed claims regarding the prospective just and reasonable rate levels, and the terms and conditions

of competitive retail access, for APS in a manner consistent with the public interest and applicable legal requirements. Nothing contained in this Agreement is an admission by APS that its current rate levels or rate design are unjust or unreasonable.

7.5. As part of this Agreement, APS commits that it will continue the APS Community Action Partnership (which includes weatherization, facility repair and replacement, bill assistance, health and safety programs and energy education) in an annual amount of at least \$500,000 through July 1, 2004. Additionally, the Company will, subject to Commission approval, continue low income rates E-3 and E-4 under their current terms and conditions.

7.6. APS shall actively support the Arizona Independent Scheduling Administrator ("AISA") and the formation of the Desert Star Independent System Operator. APS agrees to modify its OATT to be consistent with any FERC approved AISA protocols. The Parties reserve their rights with respect to any AISA protocols, including the right to challenge or seek modifications to, or waivers from, such protocols. APS shall file changes to its existing OATT consistent with this section within ten (10) days of Commission approval of this Agreement pursuant to Section 6.1.

7.7. Within thirty (30) days of Commission approval of this Agreement pursuant to Section 6.1, APS shall serve on the Parties an Interim Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company. APS shall voluntarily comply with this Interim Code of Conduct until the Commission approves a code of conduct for APS in accordance with the Electric Competition Rules that is concurrently effective with codes of conduct for all other Affected Utilities (as defined in the Electric Competition Rules). APS shall meet and confer with the Parties prior to serving its Interim Code of Conduct.

7.8. In the event of any disagreement over the interpretation of this Agreement or the implementation of any of the provisions of this Agreement, the Parties shall promptly convene a conference and in good faith shall attempt to resolve such disagreement.

7.9. The obligations under this Agreement that apply for a specific term set forth herein shall expire automatically in accordance with the term specified and shall require no further action for their expiration.

7.10. The Parties agree and recommend that the Commission schedule public meetings and hearings for consideration of this Agreement. The filing of this Agreement with the Commission shall be deemed to be the filing of a formal request for the expeditious issuance of a procedural schedule that establishes such formal hearings and public meetings as may be necessary for the Commission to approve this Agreement in accordance with

Section 6.1 and that afford interested parties adequate opportunity to comment and be heard on the terms of this Agreement consistent with applicable legal requirements.

DATED at Phoenix, Arizona, as of this 14th day of May, 1999.

RESIDENTIAL UTILITY
CONSUMER OFFICE

By Greg Patterson
Title Director

ARIZONA PUBLIC SERVICE COMPANY

By JACK DINEEN
Title PRESIDENT Delivery & Sales

ARIZONA COMMUNITY ACTION
ASSOCIATION

(Party) _____

By Janet K. Regan
Title Executive Director

By _____

Title _____

ARIZONANS FOR ELECTRIC CHOICE
AND COMPETITION, a coalition of

(Party) _____

companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, ~~Boeing~~, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, ~~Boeing~~, Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, ~~Arizona Association of Restaurants~~, ~~Boeing~~, and Arizona Retailers Association. **

By _____

Title _____

(Party) _____

By Steven A. Worz
Title CHAIRMAN

By _____

Title _____

Enron is NOT a signatory to this Agreement

* Also included: Boeing, AZ School Board Association, National Federation of Independent Business (NFIB), AZ Hospital Association, Lockheed Martin, Abbott Labs, Raytheon

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-R1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
RESIDENTIAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company and where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.C.C. R14-2-1603. This rate schedule is applicable only to electric delivery required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10.)

TYPE OF SERVICE

Service shall be single phase, 60 Hertz, at one standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customer's premise). Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is required for motors of an individual rated capacity of 7-1/2 HP or more.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

May - October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$10.00			
All kWh		\$0.04158	\$0.00115	\$0.00930

November - April Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$10.00			
All kWh		\$0.03518	\$0.00115	\$0.00930

B. MINIMUM \$ 10.00 per month

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$1.30 per month
Meter Reading	\$0.30 per month
Billing	\$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to the Company's Terms and Conditions for Standard Offer and Direct Access Services (Schedule #1) and Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable to all electric service required when such service is supplied at one point of delivery and measured through one meter. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met. For those service locations where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

This rate schedule is not applicable to residential service, resale service or direct access service which qualifies for Rate Schedule DA-GS10.

TYPE OF SERVICE

Service shall be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's premise. Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceed 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in the Company's Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

June - October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
5 month	\$12.50			
Per kW over 5		\$0.721		
Per kWh for the first 2,500 kWh		\$0.04255		
Per kWh for the next 100 kWh per kW over 5		\$0.04255		
Per kWh for the next 42,000 kWh		\$0.02901		
Per kWh for all additional kWh		\$0.01811		
Per all kWh			\$0.00115	
Per all kW				\$2.43

(CONTINUED ON REVERSE SIDE)

A. RATE (continued)

November – May Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$12.50			
Per kW over 5		\$0.652		
Per kWh for the first 2,500 kWh		\$0.03827		
Per kWh for the next 100 kWh per kW over 5		\$0.03827		
Per kWh for the next 42,000 kWh		\$0.02600		
Per kWh for all additional kWh		\$0.01614		
Per all kWh			\$0.00115	
Per all kW				\$2.43

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 11.6%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 52.6%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the average kW supplied during the 15-minute period of maximum use during the month, as determined from readings of the delivery meter.

B. MINIMUM

\$12.50 plus \$1.74 for each kW in excess of five of either the highest kW established during the 12 months ending with the current month or the minimum kW specified in the agreement for service, whichever is the greater.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$4.00 per month
Meter Reading	\$0.30 per month
Billing	\$0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP or under the Company's Open Access Transmission Tariff. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

(CONTINUED ON PAGE 3)

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 - 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$3.53		\$2.82
per kWh		\$0.00999	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

For service locations in:

- a) Isolated Areas: Ten (10) years, or longer, at Company's option, with standard seven (7) year termination period.
- b) Other Areas: Three (3) years, or longer, at Company's option.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: XXX XXX, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #863970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$2.58		\$1.86
per kWh		\$0.00732	\$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

(CONTINUED ON REVERSE SIDE)

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #774932285) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00				
per kW		\$2.35	\$1.22		\$1.54
per kWh		\$0.00665	\$0.00346	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS13
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 115 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$1.05		\$1.34
per kWh		\$0.00298	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ARIZONA PUBLIC SERVICE COMPANY

Exhibit A
5/10/99
Schedule A

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of				
		1999	2000	2001	2002	2003
1	Residential, DA-R1 (per kWh)	\$ 0.0093	\$ 0.0084	\$ 0.0063	\$ 0.0056	\$ 0.0050
2	Under 3 mW, DA-GS1, (per kW/mo.)	\$ 2.43	\$ 2.20	\$ 1.66	\$ 1.46	\$ 1.30
3	3 mW and Above, DA-GS10 (per kW/mo.)	\$ 2.82	\$ 2.55	\$ 1.89	\$ 1.72	\$ 1.51
4	BHP Copper (per kW/mo.)	\$ 1.54	\$ 1.53	\$ 1.06	\$ 0.95	\$ 0.83
5	Cyprus Copper (per kW/mo.)	\$ 1.34	\$ 1.46	\$ 1.05	\$ 0.94	\$ 0.82
6	Ralston Purina (per kW/mo.)	\$ 1.86	\$ 1.98	\$ 1.50	\$ 1.34	\$ 1.18
7	Average Retail (per kWh)	\$ 0.0067	\$ 0.0061	\$ 0.0054	\$ 0.0048	\$ 0.0043
						\$ 0.0031

Charges are based upon recovery of \$350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

ARIZONA PUBLIC SERVICE COMPANY

Exhibit A
5/13/99
Schedule B

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004 ^u
<u>Residential, DA-R1</u>							
1	Summer per kWh	\$ 0.04158	\$ 0.04041	\$ 0.03934	\$ 0.03837	\$ 0.03748	\$ 0.03689
2	Winter per kWh	\$ 0.03518	\$ 0.03419	\$ 0.03329	\$ 0.03247	\$ 0.03172	\$ 0.03122
<u>DA-GS1 (Under 3 mW)</u>							
Summer Rates							
3	per kW for all kW over 5	\$ 0.721	\$ 0.691	\$ 0.663	\$ 0.638	\$ 0.615	\$ 0.600
4	per kWh for the first 2,500 kWh	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
6	per kWh for the next 42,000 kWh	\$ 0.02901	\$ 0.02779	\$ 0.02667	\$ 0.02565	\$ 0.02473	\$ 0.02411
7	per kWh for all additional kWh	\$ 0.01811	\$ 0.01735	\$ 0.01665	\$ 0.01602	\$ 0.01544	\$ 0.01506
Winter Rates							
8	per kW for all kW over 5	\$ 0.652	\$ 0.624	\$ 0.599	\$ 0.576	\$ 0.555	\$ 0.541
9	per kWh for the first 2,500 kWh	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
11	per kWh for the next 42,000 kWh	\$ 0.02600	\$ 0.02490	\$ 0.02390	\$ 0.02299	\$ 0.02216	\$ 0.02161
12	per kWh for all additional kWh	\$ 0.01614	\$ 0.01546	\$ 0.01484	\$ 0.01427	\$ 0.01376	\$ 0.01342
Voltage Discounts							
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
<u>DA-GS10 (3 mW and Above)</u>							
15	per kW	\$ 3.53	\$ 3.33	\$ 3.15	\$ 2.98	\$ 2.83	\$ 2.73
16	per kWh	\$ 0.00999	\$ 0.00943	\$ 0.00892	\$ 0.00845	\$ 0.00802	\$ 0.00774
Voltage Discounts							
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
<u>DA-GS11 (Ralston Purina)</u>							
19	per kW	\$ 2.58	\$ 2.71	\$ 2.57	\$ 2.44	\$ 2.32	\$ 2.25
20	per kWh	\$ 0.00732	\$ 0.00767	\$ 0.00727	\$ 0.00691	\$ 0.00657	\$ 0.00635
<u>DA-GS12 (BHP Copper)</u>							
21	Primary Voltage Delivery - per kW	\$ 2.35	\$ 2.30	\$ 2.16	\$ 2.07	\$ 1.99	\$ 1.93
22	per kWh	\$ 0.00665	\$ 0.00651	\$ 0.00611	\$ 0.00585	\$ 0.00561	\$ 0.00546
23	Transmission Voltage Delivery - per kW	\$ 1.22	\$ 1.17	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
24	per kWh	\$ 0.00346	\$ 0.00332	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227
<u>DA-GS13 (Cyprus Bagdad)</u>							
25	per kW	\$ 1.05	\$ 1.21	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
26	per kWh	\$ 0.00297	\$ 0.00343	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227

^a Transmission voltage customers will not pay Distribution Charges after June 30, 2004

2004^a

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

1999	2000	2001	2002	2003	1/1 - 6/30 2004 ^{1/}	Total ^{2/}
164	158	145	115	86	18	686

^{1/} Amortization ends 6/30/2004

^{2/} Includes the disallowance from Section 3.3

Exhibit B

<u>Annual ACC Jurisdictional Sales of Delivered kWh or kW¹</u>			<u>% then Eligible for Access</u> x		<u>Applicable CTC (\$/kWh or \$/kW²) = Annual Recovery³</u>	
1999	Residential		20		.93	
	General Service less than 3MW		20		2.43	
	General Service greater than 3MW		20		2.82	
	BHP Copper		20		1.54	
	Cyprus Copper		20		1.34	
	Ralston Purina		20		1.86	
2000	Residential		20		.84	
	General Service less than 3MW		20		2.20	
	General Service greater than 3MW		20		2.55	
	BHP Copper		20		1.53	
	Cyprus Copper		20		1.46	
	Ralston Purina		20		1.98	
2001	Residential		100		.63	
	General Service less than 3MW		100		1.66	
	General Service greater than 3MW		100		1.89	
	BHP Copper		100		1.06	
	Cyprus Copper		100		1.05	
	Ralston Purina		100		1.50	
2002	Residential		100		.56	
	General Service less than 3MW		100		1.46	
	General Service greater than 3MW		100		1.72	
	BHP Copper		100		.95	
	Cyprus Copper		100		.94	
	Ralston Purina		100		1.34	
2003	Residential		100		.50	
	General Service less than 3MW		100		1.30	
	General Service greater than 3MW		100		1.51	
	BHP Copper		100		.83	
	Cyprus Copper		100		.82	
	Ralston Purina		100		1.18	
2004	Residential		100		.36	
	General Service less than 3MW		100		.94	
	General Service greater than 3MW		100		1.09	
	BHP Copper		100		.61	
	Cyprus Copper		100		.61	
	Ralston Purina		100		.87	

¹ This formula assumes no change in APS' distribution service territory. In the event of any material change (e.g. by purchase, sale, expansion, condemnation, etc.) the formula will be adjusted such that APS receives the same opportunity to recover the agreed upon level of costs.

² General Service unmetered loads will have a demand calculated for CTC purposes based on contract energy.

³ At the end of 2004 the net present value will be calculated to compare to the \$350 million.

EXHIBIT C

Generation assets include, but are not limited to, APS' interest in the following generating stations:

Palo Verde
Four Corners
Navajo
Cholla
Saguaro
Ocotillo
West Phoenix
Yucca
Douglas
Childs
Irving

including allocated common and general plant, support assets, associated land, fuel supplies and contracts, etc. Generation assets will not include facilities included in APS' FERC transmission rates.

EXHIBIT D
Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-804(A)

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

SCHEDULE JED-3

APS STRANDED COST CALCULATION

FILED 8/21/98

SCHEDULE JED-4

APS RESIDENTIAL PHASE-IN PLAN

FILED 12/21/98



Barbara A. Klemstine
Manager
Regulatory Affairs

RECEIVED
AZ CORP COMMISSION

DEC 21

10 33 AM '98

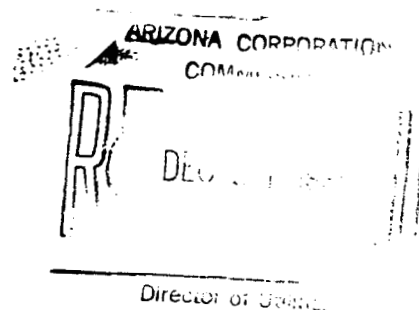
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DOCUMENT CONTROL

December 21, 1998

Mr. Ray Williamson
Acting Director, Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007



Re: Docket RE-00000 C-94-0165
Residential Phase-In Program

Dear Mr. Williamson:

On September 15, 1998, pursuant to Decision No. 61071, Arizona Public Service Company submitted a Residential Phase-In Program proposal. On October 19, 1998, Staff approved APS's proposal as written. Pursuant to Decision No. 61272, APS is submitting a revised copy of our Approved Residential Phase-In Program reflecting the change in the "Rules" increasing the number of residential customers eligible for direct access.

A copy of this document and the attached letter is being filed in Docket Control for interested parties.

If you have any questions, please contact me at 250-2031.

Sincerely,

Barbara A. Klemstine
Manager
Regulatory Affairs

BAK/srm

Enclosure

ARIZONA PUBLIC SERVICE COMPANY
DIRECT ACCESS RESIDENTIAL PHASE-IN PROGRAM
IMPLEMENTATION PLAN

I. GENERAL DESCRIPTION

The residential phase-in program has been developed to provide a means by which Arizona Public Service Company ("APS" or "the Company") will provide current and new residential customers with the opportunity to procure competitive services from a source other than APS. This plan describes notification procedures, selection, and tracking mechanisms necessary to meet the Arizona Corporation Commission's ("ACC" or "the Commission") requirements as set forth in A.A.C.R14-2-1604 (Rule 1604.)

II. ELIGIBILITY

General

The Arizona Corporation Commission requires that a minimum of 1¼% of residential customers have access to competitive electric services. The number of eligible residential customers will increase by an additional 1¼% every quarter until January 1, 2001. In accordance with these rules, approximately 1¼ of APS' 685,672 residential customers (as of July 1998) or 8,750 residential customers; (the actual number of 8,570 was rounded upward) will be eligible for competitive electric service beginning January 1, 1999. Each subsequent quarter, an additional 8,750 residential customers will be eligible for direct access.

Solar

All residential customers who produce or purchase at least 10% of their annual electricity consumption from photovoltaic or solar thermal energy resources that were installed in Arizona after January 1, 1997 shall be eligible for participation in a competitive market. Customers who provide evidence of such solar or photovoltaic consumption to APS (i.e. an equipment purchase receipt or Energy Service Provider resource statement) will be declared eligible. This will be in addition to the above-mentioned residential eligibility (8,750 eligible residential customers per quarter) and will not be considered as part of the 20% of 1995 system peak demand otherwise eligible for direct access. Solar or photovoltaic customers must also identify themselves as such through their ESP for immediate processing of a service request. APS reserves the right to implement policies to verify and track eligibility of photovoltaic and solar energy resources.

Low-Income Residential Customers

To ensure that low-income residential customers (customers on Rate Schedules E-3 and E-4) have an opportunity to participate in direct access, ½ of 1% of the low-income residential customers (there are approximately 26,000 customers on E-3 and E-4) will be

eligible for direct access and not counted towards the 20% of system peak demand. This results in 150 per quarter or 1,200 in total.

III. Calculation of Reserved Residential Load

Each affected utility is required to make available at least 20% of its 1995 system retail peak demand for competitive generation on a first-come first-serve basis. Twenty percent of APS' 1995 system retail peak demand of 3,725 mW is 745 mW (demands measured at the meter). To calculate the proportion of the 745 mW that must be "reserved" for residential direct access, a system peak coincident demand of 3.30 kW (as estimated from APS' ongoing load survey program) was used for each eligible residential customer. The following calculation was then used to estimate the residential "reserved" portion of the APS load available for competitive generation:

$$\begin{aligned}\text{Reserved Load} &= \text{Total \# Residential Customers Eligible} \times 3.3 \text{ kW} \\ &\text{or} \\ \text{Reserved Load} &= (8,750 \times 8) \times 3.3 = 231 \text{ mW}\end{aligned}$$

Where:

8,750	=	The number of residential customers eligible per quarter
8	=	The number of quarters between January 1, 1999 and January 1, 2001
3.3	=	Average residential system peak coincident demand

The amount of load available for competitive generation for non-residential customers is then 514 mW (745 mW less 231 mW).

IV. PROCESS FOR CUSTOMER NOTIFICATION OF RESIDENTIAL PHASE-IN PROGRAM

APS will implement a notification process to inform all APS residential customers concerning the residential phase-in program. This notification process is designed to inform APS' residential customers concerning the applicable provisions and eligibility requirements set forth in A.A.C.R14-2-1604(B). Based on consumer response, APS will evaluate the appropriate means of ongoing notification during the phase-in period.

Bill inserts will be sent to all residential customers upon Commission review of the Company's Implementation Plan. This bill insert will, at a minimum, contain the following information:

- A. The qualification requirements for residential customers set forth in A.A.C.R14-2-1604(B).
- B. Residential phase-in program direct access eligibility dates.

C. A reply card to request additional information.

D. A phone number for customers to call and ask questions or request additional information.

New residential customers (those connecting service after October 31, 1998) will be notified about direct access through the existing customer kit process used to welcome new customers.

V. CUSTOMER EDUCATION AND INFORMATION SERVICES TO BE OFFERED

Coincident with the bill insert, APS will offer customer education and information services such as online services, media relations, bi-monthly publications, public presentations/forums, direct mailings/bill communications and Spanish translations where appropriate to all APS residential customers concerning competition (including the residential phase-in program).

The information provided on the bill insert and reply form will be available on the APS Internet web site so customers can access and review the notification literature. The web site will identify locations where reply cards are available or customers can provide their name and address on-line and have an information packet sent to them.

Upon receipt of a customer reply card or customer request, a direct access customer information packet will be provided.

A separate direct access phone line in Phoenix has been established to answer questions and handle information requests. The APS Customer Solutions Center 800 number will also be provided to customers as a communication link to answer direct access questions and handle information requests. These phone numbers will be included in bill inserts, advertising, and customer information packages.

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VI. SELECTION AND TRACKING MECHANISM FOR RESIDENTIAL CUSTOMERS BASED ON A FIRST-COME FIRST SERVE BASIS

Residential customers will be eligible for access on a first-come first-serve basis. Customers must actually choose an alternative energy supplier and have that supplier submit a request to switch which will be counted. The time that the request to switch is received by APS will be used to establish priority for direct access. The first 8,750 requests that are accepted will have access in the first quarter and any requests in excess will be put on a waiting list for the next quarters prioritized by time received. This selection method has several advantages: 1) it will ensure that access slots do not go unused (only customers committed to choosing an alternate supplier will have access), 2)

there will not be an eligibility list that has to remain confidential, and 3) ESPs will be able to market to the class as a whole rather than only a small segment.

As a result of the ACC workshop process, APS has developed a Direct Access Service Request ("DASR") process to facilitate direct access. This process enables APS to track customer switching to and between Electric Service Providers ("ESPs"), verify customer eligibility during the direct access phase-in period, and provide a timing mechanism to place requests in a sequential order based on the time they were submitted to APS. The DASR will be the mechanism used to track customers on first-come first-serve basis.

To educate ESPs and ensure the process moves smoothly as possible the Company will have an ESP Open House in October. Additionally, an Internet site has been established where ESPs can access information.

DASR Process

Customers wishing to select direct access will contact their preferred ESP. The ESP will then prepare DASRs and submit them to APS. DASRs will be time and date stamped upon receipt by APS to track the order of receipt. APS will respond back to the ESP, on valid DASRs, a DASR status of "accepted" until the remaining slots are filled.

APS will begin accepting DASRs for the first quarter on December 1, 1998. APS will monitor both the number of customers that have effectively switched to direct access and are receiving competitive services as well as the number of DASRs that are accepted and assigned a switch date within the quarter. The quarter will be closed once APS has accepted DASRs for the total number of customers eligible in that quarter.

As the DASRs are accepted, APS will respond to the ESP confirming the change date. Once the quarterly requirements have been filled, all subsequent DASRs will be held in a pending status, establishing a waiting list, until the first business day one month prior to the proceeding quarter. On that day, APS will begin processing the pending DASRs from the waiting list in the order they were received for the next quarter. APS will respond back to the ESP, for valid DASRs, an accepted status as well as assign the next scheduled read date for the switch date.

APS will maintain a waiting list of up to 61,250 DASRs. If the waiting list is full, no further DASRs will be accepted. APS will update the newly created APS ESP Internet site with eligibility and waiting list status. If a DASR is submitted for a first time Direct Access customer and is rescinded before the effective switch date, the customer will not be given preferential treatment over other first time Direct Access customers. An ESP cannot submit changes to a DASR that is on the waiting list. The only action that can be taken by the ESP is a cancellation. Once the DASR is processed and the ESP has received an accepted status, the ESP may then initiate any appropriate changes.

Customers may elect to change ESPs during the phase-in period. The ESP acquiring the customer is responsible for submitting a DASR change. Eligibility follows the residential customer and not the site location (that is, service address.) However, if an eligible

customer returns to a standard offer rate, then they must reapply for competitive eligibility through the DASR process.

VII. LOAD PROFILING

Under FERC Order 888 (Open Access Transmission), APS as a control area operator, requires hourly loads from each Scheduling Coordinator (either the ESP itself or a mutually agreed upon third party) for energy imbalance and settlement. Pursuant to R14-2-1613(J.7) residential customers with loads of 20kW (or 100,000 kWh annually) will be permitted to use load profiling to satisfy the requirements for hourly consumption data. APS will make a revised OAT filing with FERC to accommodate retail direct access. The load profiling methodology will be part of that filing and must be approved by FERC. Each scheduling coordinator's hourly-profiled and hourly-metered loads will be summed for each hour to determine its hourly responsibilities for settlement.

The load profiling process takes the retail customers cumulative kilowatt-hour (kWh) for the billing cycle and allocates it to each hour in the cycle based on a load curve developed from a statically valid sample set that is representative of the retail customer's load.

The allocation process involves:

1. Determining the representative sample set's ratio for each hour, by dividing each of its hourly loads by its total usage for the billing cycle. The billing cycle starts the hour and date that the retail customer's meter was last read and stops the hour and date of the current read.
2. The ratio for each hour is then multiplied by the retail customer's total kWh usage for the billing cycle to obtain each hourly load for that customer.

During the phase-in, APS plans to use two segment sets. These are high country residential and low country residential. Customers will be assigned one of these two profiles based upon the geographic area in which they reside.

Initially these profiles will be static. That is profiled loads will be developed based on the static profile then adjusted to reflect the profiled days system load pattern. The adjustment is needed to reflect changes in the system due to weather and other system conditions. The adjustment will be determined for each hour using the following formula:

$$\text{Adjustment} = \frac{\text{APS current system profile ratio for hour}}{\text{APS historic system profile ratio for hour}}$$

Static profiles will be provided when they are available. APS estimates that by 2001, dynamic profiles will be utilized.